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SUBJECT: GHANA ECONOMIC HIGHLIGHTS, OCTOBER-NOVEMBER 2005

1. This report covers noteworthy economic events and activities in Ghana for October-November 2005. The issues covered are:

- Government Submits Annual Budget to Parliament
- World Bank Review of Consultative Group Meeting
- World Bank Seminar on Fighting Corruption
- Treasury Advisors Host HR Management Workshop
- Fitch Rating Agency Reviews Ghana Rating
- Ghana Increases Cocoa Grinding Capacity
- Diamond Development Initiative Meeting
- Ghana Makes Strides in Air Quality Management

Government Submits Annual Budget to Parliament

2. President Kufuor submitted the draft annual budget to Parliament on November 10, fulfilling the GoG's ambitious promise to complete the 2006 budget prior to year-end 2005. Parliament has agreed to debate the budget during December, so that it will be ready for implementation at the beginning of the financial year, a first for Ghana. In his letter to Parliament, Kufuor claimed the budget would usher Ghana "onto a new economic plateau which facilitates the process of attaining the status of a middle income country in the next decade within the framework of good governance, private sector development, rule of law, respect for human and property rights and prudent fiscal and economic management."

3. The local press has questioned some of the data presented in the budget, especially for 2005 where the government predicts it will meet every target -- including 5.8 real GDP growth, despite high oil prices and lower cocoa revenues. Nevertheless, the IMF has certified that the budget meets the commitments of the Poverty Reduction and Growth Facility program, and it also increases the accountability of HIPC funds (a concern in the past). The GoG commits to using 20% of HIPC funds to pay down domestic debt and 80% for poverty reduction.

World Bank Review of Consultative Group Meeting

4. World Bank Country Director Mats Karlsson hosted a Donors' Heads of Mission meeting November 18 to review the results of the November 7 Consultative Group (CG) meeting between Donors and the GoG. The CG resulted in three useful documents that together provide the development/assistance roadmap: 1) the Results Matrix, showing the Growth and Poverty Reduction Strategy's (GPRS) goals, expected outcomes, government actions, and donor contributions; 2) the Aid Harmonization and Effectiveness Matrix, which coordinates donor and GoG spending; and 3) the Development Partner Support Overview, showing projections of donor assistance levels. The next GoG/Donors meeting is scheduled for June 2006. Donors agreed to meet about every two months to coordinate, with the first meeting set for late February 2006. The GoG hopes to finalize the GPRS by March 2006, and DPs will update the Support Matrix at that time. Donors agreed to consider changing the name of the June 2006 meeting from "CG" to "Ghana Partnership Strategy."

World Bank Seminar on Fighting Corruption

5. The World Bank organized a November 15 seminar on "Achieving Middle Income Status: The Need to Fight Corruption by Implementing the Procurement, Financial Administration and Internal Audit Acts." Local radio station Joy FM broadcast the first three hours of the seminar. Presenters expressed concern about evidence of both increasing corruption in Ghana and increasing tolerance for corruption among Ghanaians. The consensus was that Ghana must address this issue now, to prevent it from becoming the major obstacle to achieving middle-income status by 2015. Joe Abbey, the Executive Director of the Center for Economic Policy Analysis, and one of the most respected Ghanaian economists, emphasized that the GoG should act because corruption raises risks to doing business, therefore deterring investment or making it less productive.

6. Participants agreed that the GoG had not yet fully implemented nor enforced the Procurement, Financial Administration and Internal Audit Acts, which combined should reduce government corruption, given that in 2004 public procurement totaled \$750 million, or over 70% of the operational budget. The seminar occurred around the same time that Transparency International published its 2005

Corruption Perceptions report, with Ghana falling slightly in the rankings.

#### Treasury Advisors Host HR Management Workshop

17. U.S. Treasury advisors working on tax reform in Ghana cosponsored a November 16-18 workshop for Ghana revenue agencies with the German Technical Cooperation (GTZ) Agency and the Ghana Revenue Agencies Governing Board (RAGB). The workshop focused on three human resource topics: job descriptions, performance appraisals, and career management. The revenue agencies ) IRS, VAT, Customs, and Large Taxpayer Unit -- plan to merge into one organization, and a unified HR system is critical. Treasury and GTZ experts presented world best practices to the 35 participants. Sixty five government officials and private sector representatives attending the opening session, which received widespread and positive media coverage.

#### Fitch Rating Agency Reviews Ghana Rating

18. EconChief met November 17 with Fitch Rating Agency officials to review recent economic events. Fitch raised Ghana's Sovereign Credit Rating to "B plus" from "B with Positive Outlook" in March 2005, and is now conducting a regularly scheduled review. The Fitch Reps heard a uniformly positive message about Ghana's economic and political policies from the IMF, World Bank, and Ghanaian private sector. However, they said Ghana would need to accelerate the pace of structural reforms for Fitch to raise the rating beyond "B plus," and commented that Standard and Poor's would likely agree.

#### Ghana Increases Cocoa Grinding Capacity

19. On November 7, the Ghana Cocoa Processing Company (CPC) inaugurated newly installed machinery that doubles the CPC's capacity to grind raw cocoa beans. The expansion is part of the GoG's policy of adding value to cocoa exports, instead of only exporting raw cocoa beans. With the expansion, Ghana's grinding capacity is approximately 45% of total production, which totaled about 600,000 million tons in the 2004/2005 season. Local private banks financed the 22 million Euros expansion, with most of the equipment imported from the U.S. and Switzerland. CPC plans is also rehabilitating a factory to increase processing of cocoa liquor, butter, cake, and powder. (Note: The GoG partially privatized CPC in September 2002 by floating 40% of its shares on the Ghana Stock Exchange. CPC's board is, however, still dominated by GoG appointees. The CPC exports over 90% of its products. End Note)

#### Diamond Development Initiative Meeting

10. The Diamond Development Initiative (DDI) took place October 28-30 in Accra, with the goal of improving the plight of Africa's diamond miners and to direct more of the diamond trade into formal channels subject to regulation and taxation. DDI aims to build on the regulatory structure of the Kimberly Process (which focuses on exports and international trade). The conference focused on five themes: money, banking and parallel economies; policy and regulatory frameworks; social issues; technical issues; and security issues. (Note: readout provided by AmEmb Monrovia EconOff, who attended the conference. End Note)

#### Ghana Makes Strides in Air Quality Management

11. U.S. EPA organized an Outreach Workshop in Ghana November 8-9 as a wrap-up to the initial phase of the EPA/USAID-funded Air Quality Monitoring Capacity-Building Project. The purpose of the workshop was to provide information to stakeholders (government, public, media, donors) about the accomplishments in establishing an air monitoring system in Ghana, and also present on air quality management and hold technical consultations with government on air quality monitoring. The project has three goals: promote local capacity to conduct air quality monitoring, analyze air quality data on key pollutants, and provide policymakers with information on air quality and its impact on public health. Preliminary results from the project, announced during the workshop, reveal that the phase-out of leaded gas starting 2004 has resulted in a marked decrease of the toxic material in Accra's air.

12. The project is unique in that it is the first to build local capacity to sustain a long-term monitoring program. Next steps include continued monitoring and health analyses, refining health-based air quality standards, public education, and advice on pollution mitigation options and behavioral change strategies. U.S. EPA and the Research Triangle Institute are providing technical assistance under the project, with USAID funding. UNEP is funding in-country costs, and Ghana's EPA coordinates the implementation committee consisting of government, NGOs, and academia.

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